Compiled Accounting Standard **AASB 116**

Property, Plant and Equipment

This compiled Standard applies to annual reporting periods beginning on or after 1 July 2007. Early application is permitted. It incorporates relevant amendments made up to and including 30 April 2007.

Prepared on 11 July 2007 by the staff of the Australian Accounting Standards Board.

Australian Government
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Australian Accounting Standard AASB 116 *Property, Plant and Equipment* (as amended) is set out in paragraphs 1 – 79. All the paragraphs have equal authority. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 116 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

COMPILATION DETAILS

Accounting Standard AASB 116 *Property, Plant and Equipment* as amended

This compiled Standard applies to annual reporting periods beginning on or after 1 July 2007. It takes into account amendments up to and including 30 April 2007 and was prepared on 11 July 2007 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 116 (July 2004) as amended by other Accounting Standards, which are listed in the Table below.

Table of Standards

Standard	**Date made**	**Application date** ***(annual reporting periods … on or after …)***	**Application, saving or transitional provisions**
AASB 116	15 Jul 2004	*(beginning)* 1 Jan 2005	
AASB 2004-1	9 Dec 2004	*(beginning)* 1 Jan 2005	–
AASB 2007-4	30 Apr 2007	*(beginning)* 1 Jul 2007	see (a) below

(a) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2007.

Table of Amendments to Standard

Paragraph affected	**How affected**	**By … [paragraph]**
3	amended	AASB 2004-1 [7]
24	amended	AASB 2007-4 [50]
28	added	AASB 2007-4 [49]
35	amended	AASB 2007-4 [50]

Table of Amendments to Australian Guidance

Paragraph affected	**How affected**	**By … [paragraph]**
G1-G11	deleted	AASB, Apr 2006 *

* The AASB decided at its meeting on 6 April 2006 to delete all of the Australian Guidance accompanying, but not part of, AASB 116. The decision has immediate effect.

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

AASB 116 and IAS 16

AASB 116 as amended is equivalent to IAS 16 *Property, Plant and Equipment* as issued and amended by the IASB. Paragraphs that have been added to this Standard (and do not appear in the text of the equivalent IASB standard) are identified with the prefix "Aus", followed by the number of the relevant IASB paragraph and decimal numbering. Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.

Compliance with IAS 16

For-profit entities that comply with AASB 116 as amended will simultaneously be in compliance with IAS 16 as amended. Not-for-profit entities using the added "Aus" paragraphs in the Standard that specifically apply to not-for-profit entities may not be simultaneously complying with IAS 16. Whether a not-for-profit entity will be in compliance with IAS 16 will depend on whether the "Aus" paragraphs provide additional guidance for not-for-profit entities or contain requirements that are inconsistent with the corresponding IASB Standard and will be applied by the not-for-profit entity.

AASB 116 and IPSAS 17

International Public Sector Accounting Standards (IPSASs) are issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants.

IPSAS 17 *Property, Plant and Equipment* (December 2001) is drawn primarily from the 1998 version of IAS 16. The main differences between IPSAS 17 and AASB 116 (July 2004) were listed in the original AASB 116.

ACCOUNTING STANDARD AASB 116

The Australian Accounting Standards Board made Accounting Standard AASB 116 *Property, Plant and Equipment* under section 334 of the *Corporations Act 2001* on 15 July 2004.

This compiled version of AASB 116 applies to annual reporting periods beginning on or after 1 July 2007. It incorporates relevant amendments contained in other AASB Standards made by the AASB and other decisions of the AASB up to and including 30 April 2007 (see Compilation Details).

ACCOUNTING STANDARD AASB 116

PROPERTY, PLANT AND EQUIPMENT

Objective

1. The objective of this Standard is to prescribe the accounting treatment for *property, plant and equipment* so that users of the financial report can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their *carrying amounts* and the *depreciation* charges and *impairment losses* to be recognised in relation to them.

Application

Aus1.1 This Standard applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

(b) general purpose financial reports of each other reporting entity; and

(c) financial reports that are, or are held out to be, general purpose financial reports.

Aus1.2 **This Standard applies to annual reporting periods beginning on or after 1 January 2005.**

[Note: For application dates of paragraphs changed or added by an amending Standard, see Compilation Details.]

Aus1.3 **This Standard shall not be applied to annual reporting periods beginning before 1 January 2005.**

Aus1.4 **The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**

Aus1.5 **When applicable, this Standard supersedes:**

(a) AASB 1015 *Acquisitions of Assets* as notified in the *Commonwealth of Australia Gazette* No S 527, 5 November 1999;

(b) AASB 1021 *Depreciation* as notified in the *Commonwealth of Australia Gazette* No S 341, 29 August 1997;

(c) AASB 1041 *Revaluation of Non-Current Assets* as notified in the *Commonwealth of Australia Gazette* No S 294, 19 July 2001;

(d) AAS 4 *Depreciation* as issued in August 1997; and

(e) AAS 21 *Acquisitions of Assets* as issued in November 1999.

Aus1.6 AASB 1015, AASB 1021, AASB 1041, AAS 4 and AAS 21 remain applicable until superseded by this Standard.

Aus1.7 Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.

Scope

2. **This Standard shall be applied in accounting for property, plant and equipment except when another Standard requires or permits a different accounting treatment.**

3. This Standard does not apply to:

   (a) property, plant and equipment classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*;

   (b) biological assets related to agricultural activity (see AASB 141 *Agriculture*);

   (c) the recognition and measurement of exploration and evaluation assets (see AASB 6 *Exploration for and Evaluation of Mineral Resources*); or

   (d) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

   However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (b)-(d).

4. Other Australian Accounting Standards may require recognition of an item of property, plant and equipment based on an approach different from that in this Standard. For example, AASB 117 *Leases* requires an entity to evaluate its recognition of an item of leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.

5. An entity shall apply this Standard to property that is being constructed or developed for future use as investment property but does not yet satisfy the definition of 'investment property' in AASB 140 *Investment Property*. Once the construction or development is complete, the property becomes investment property and the entity is required to apply AASB 140. AASB 140 also applies to investment property that is being redeveloped for continued future use as investment property. An entity using the cost model for investment property in accordance with AASB 140 shall use the cost model in this Standard.

Definitions

6. The following terms are used in this Standard with the meanings specified.

   ***Carrying amount* is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.**

Cost **is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards, for example, AASB 2** ***Share-based Payment*****.**

Depreciable amount **is the cost of an asset, or other amount substituted for cost, less its residual value.**

Depreciation **is the systematic allocation of the depreciable amount of an asset over its useful life.**

Entity-specific value **is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.**

Fair value **is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.**

An ***impairment loss*** **is the amount by which the carrying amount of an asset exceeds its recoverable amount.**

Property, plant and equipment **are tangible items that:**

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period.

Recoverable amount **is the higher of an asset's net selling price and its value in use.**

The ***residual value*** **of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.**

Useful life **is:**

(a) the period over which an asset is expected to be available for use by an entity; or

(b) the number of production or similar units expected to be obtained from the asset by an entity.

Aus6.1 The following term is also used in this Standard with the meaning specified.

A *not-for-profit entity* is an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent and each of the entities that it controls.

Recognition

7. The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

8. Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

9. This Standard does not prescribe the unit of measure for recognition, that is, what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value.

10. An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

Initial Costs

11. Items of property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and

equipment, although not directly increasing the future economic benefits of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits from related assets in excess of what could be derived had it not been acquired. For example, a chemical manufacturer may install new chemical handling processes to comply with environmental requirements for the production and storage of dangerous chemicals; related plant enhancements are recognised as an asset because, without them, the entity is unable to manufacture and sell chemicals. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with AASB 136 *Impairment of Assets*.

Subsequent Costs

12. Under the recognition principle in paragraph 7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.

13. Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs 67-72).

14. A condition of continuing to operate an item of property, plant and equipment (e.g. an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection

(as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Measurement at Recognition

15. An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

Aus15.1 Notwithstanding paragraph 15, in respect of *not-for-profit entities*, where an asset is acquired at no cost, or for a nominal cost, the cost is its *fair value* as at the date of acquisition.

Aus15.2 In respect of not-for-profit entities, an item of property, plant and equipment may be gifted or contributed to the entity. For example, land may be contributed to a local government by a developer at no or nominal consideration to enable the local government to develop parks, roads and paths in the development. An asset may also be acquired for no or nominal consideration through the exercise of powers of sequestration. Under these circumstances the cost of the item is its fair value as at the date it is acquired.

Aus15.3 In respect of not-for-profit entities, for the purposes of this Standard, the initial recognition at fair value of an item of property, plant and equipment, acquired at no or nominal cost, consistent with the requirements of paragraph Aus15.1, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 31, and the supporting commentary in paragraphs 32 to 35, only apply where an entity elects to revalue an item of property, plant and equipment in subsequent reporting periods.

Elements of Cost

16. The cost of an item of property, plant and equipment comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

17. Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in AASB 119 *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;

(b) costs of site preparation;

(c) initial delivery and handling costs;

(d) installation and assembly costs;

(e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and

(f) professional fees.

18. An entity applies AASB 102 *Inventories* to the costs of obligations for asset dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with AASB 102 or AASB 116 are recognised and measured in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

19. Examples of costs that are not costs of an item of property, plant and equipment are:

(a) costs of opening a new facility;

(b) costs of introducing a new product or service (including costs of advertising and promotional activities);

(c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and

(d) administration and other general overhead costs.

20. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

(a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;

(b) initial operating losses, such as those incurred while demand for the item's output builds up; and

(c) costs of relocating or reorganising part or all of an entity's operations.

21. Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, income may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognised in profit or loss and included in their respective classifications of income and expense.

22. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see AASB 102). Therefore, any internal profits are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. AASB 123 *Borrowing Costs* establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.

Measurement of Cost

23. The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is recognised in the carrying amount of the asset in accordance with the allowed alternative treatment in AASB 123.

24. One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

25. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

    (a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or

    (b) the *entity-specific value* of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and

    (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

    For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.

26. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the

probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

27. The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with AASB 117.

28. The carrying amount of an item of property, plant and equipment may be reduced by government grants in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.

Measurement after Recognition

29. An entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

Cost Model

30. After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation Model

31. After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

32. The fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The fair value of items of plant and equipment is usually their market value determined by appraisal.

33. If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the

item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach.

34. The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

35. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

    (a) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to determine its depreciated replacement cost; or

    (b) eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings.

    The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 39, Aus39.1, 40, Aus40.1 and Aus40.2.

36. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

37. A class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations. The following are examples of separate classes:

    (a) land;

    (b) land and buildings;

    (c) machinery;

(d) ships;

(e) aircraft;

(f) motor vehicles;

(g) furniture and fixtures; and

(h) office equipment.

38. The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

39. If an asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to equity under the heading of revaluation reserve. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Aus39.1 Notwithstanding paragraph 39, in respect of not-for-profit entities, if the carrying amount of a class of assets is increased as a result of a revaluation, the net revaluation increase shall be credited directly to equity under the heading of revaluation reserve. However, the net revaluation increase shall be recognised in profit or loss to the extent that it reverses a net revaluation decrease of the same class of assets previously recognised in profit or loss.

40. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be debited directly to equity under the heading of revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

Aus40.1 Notwithstanding paragraph 40, in respect of not-for-profit entities, if the carrying amount of a class of assets decreased as a result of a revaluation, the net revaluation decrease shall be recognised in profit or loss. However, the net revaluation decrease shall be debited directly to equity under the heading of revaluation reserve to the extent of any credit

balance existing in any revaluation reserve in respect of that same class of asset.

Aus40.2 Notwithstanding paragraph 40, in respect of not-for-profit entities, revaluation increases and revaluation decreases relating to individual assets within a class of property, plant and equipment shall be offset against one another within that class but shall not be offset in respect of assets in different classes.

41. The revaluation reserve included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation reserve to retained earnings are not made through profit or loss.

42. The effects of taxes on income, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with AASB 112 *Income Taxes*.

Depreciation

43. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

44. An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease.

45. A significant part of an item of property, plant and equipment may have a *useful life* and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

46. To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying

expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

47. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

48. The depreciation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset.

49. The depreciation charge for a period is usually recognised in profit or loss. However, sometimes, the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see AASB 102). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognised in accordance with AASB 138 *Intangible Assets*.

Depreciable Amount and Depreciation Period

50. The *depreciable amount* of an asset shall be allocated on a systematic basis over its useful life.

51. The *residual value* and the useful life of an asset shall be reviewed at least at the end of each annual reporting period and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

52. Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset do not negate the need to depreciate it.

53. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

54. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's

depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

55. Depreciation of an asset begins when it is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with AASB 5 and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

56. The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

    (a) expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.

    (b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.

    (c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.

    (d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

57. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets.

58. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

59. If the cost of land includes the costs of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits to be derived from it.

Depreciation Method

60. The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

61. The depreciation method applied to an asset shall be reviewed at least at the end of each annual reporting period and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with AASB 108.

62. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.

Impairment

63. To determine whether an item of property, plant and equipment is impaired, an entity applies AASB 136. That Standard explains how an

entity reviews the carrying amount of its assets, how it determines the *recoverable amount* of an asset, and when it recognises, or reverses the recognition of, an impairment loss.

64. [Deleted by the IASB]

Compensation for Impairment

65. Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.

66. Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

(a) impairments of items of property, plant and equipment are recognised in accordance with AASB 136;

(b) the derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;

(c) compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining profit or loss when it becomes receivable; and

(d) the cost of items of property, plant and equipment restored, purchased or constructed as replacements is determined in accordance with this Standard.

Derecognition

67. The carrying amount of an item of property, plant and equipment shall be derecognised:

(a) on disposal; or

(b) when no future economic benefits are expected from its use or disposal.

68. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless AASB 117 requires

otherwise on a sale and leaseback). Gains shall not be classified as revenue.

69. The disposal of an item of property, plant and equipment may occur in a variety of ways (e.g. by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in AASB 118 *Revenue* for recognising revenue from the sale of goods. AASB 117 applies to disposal by a sale and leaseback.

70. If, under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

71. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

72. The consideration receivable on disposal of an item of property, plant and equipment is recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with AASB 118 reflecting the effective yield on the receivable.

Disclosure

73. The financial report shall disclose, for each class of property, plant and equipment:

(a) the measurement bases used for determining the gross carrying amount;

(b) the depreciation methods used;

(c) the useful lives or the depreciation rates used;

(d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions;

(ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with AASB 5 and other disposals;

(iii) acquisitions through business combinations;

(iv) increases or decreases resulting from revaluations under paragraphs 31, 39, Aus39.1, 40, Aus40.1 and Aus40.2 and from impairment losses recognised or reversed directly in equity in accordance with AASB 136;

(v) impairment losses recognised in profit or loss in accordance with AASB 136;

(vi) impairment losses reversed in profit or loss in accordance with AASB 136;

(vii) depreciation;

(viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and

(ix) other changes.

74. The financial report shall also disclose:

(a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;

(b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;

(c) the amount of contractual commitments for the acquisition of property, plant and equipment; and

(d) if it is not disclosed separately on the face of the income statement, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.

75. Selection of the depreciation method and estimation of the useful life of assets are matters of judgement. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of the financial report with information that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

(a) depreciation, whether recognised in profit or loss or as a part of the cost of other assets, during a period; and

(b) accumulated depreciation at the end of the period.

76. In accordance with AASB 108 an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:

(a) residual values;

(b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment;

(c) useful lives; and

(d) depreciation methods.

77. If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:

(a) the effective date of the revaluation;

(b) whether an independent valuer was involved;

(c) the methods and significant assumptions applied in estimating the items' fair values;

(d) the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;

(e) **for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and**

(f) **the revaluation reserve, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.**

Aus77.1 **Notwithstanding paragraph 77(e), in respect of not-for-profit entities, for each revalued class of property, plant and equipment, the requirement to disclose the carrying amount that would have been recognised had the assets been carried under the cost model does not apply.**

78. In accordance with AASB 136 an entity discloses information on impaired property, plant and equipment in addition to the information required by paragraph 73(e)(iv)-(vi).

79. Users of the financial report may also find the following information relevant to their needs:

(a) the carrying amount of temporarily idle property, plant and equipment;

(b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;

(c) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with AASB 5; and

(d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

Transitional Provisions of IAS 16

80. [Deleted by the AASB]

Effective Date of IAS 16

81. [Deleted by the AASB]

Withdrawal of Other Pronouncements of the IASB

82. [Deleted by the AASB]

83. [Deleted by the AASB]